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FIFTH MEETING

OF THE

COMMITTEE ON SMALL BUSINESS UNITED STATES SENATE

WITH

MEMBERS

OF THE

COMMITTEE'S NATIONAL ADVISORY COUNCIL

OCTOBER 23, 1985

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PARTICIPANTS

Senators:

Hon. Lowell Weicker, Jr. (Connecticut), chairman.
Hon. Slade Gorton (Washington).
Hon. Don Nickles (Oklahoma).
Hon. Bob Kasten (Wisconsin).
Hon. Dale Bumpers (Arkansas).
Hon. Sam Nunn (Georgia).
Hon. James R. Sasser (Tennessee).
Hon. John F. Kerry (Massachusetts).

Advisory Committee members:

Mrs. Thelma Stevenson Ablan, president, Stevenson & Associates, Chicago, IL.
Mr. Robert Baker, senior vice president, Essex Bank, Peabody, MA.
Mrs. Asta Ball, vice president-sales, Miniature Nut & Screw Corp., Newington, CT.
Mr. R. Herb Bowden, president and chief executive officer, Sencore, Inc., Sioux Falls, SD.
Mr. Timothy Fine, Esq., San Francisco, CA.
Mr. Walter Floss, Sr., Floss Insurance Agency, East Amherst, NY.
Mr. R. Alan Fuentes, president, Computer Dynamics, Inc., Virginia Beach, VA.
Mr. Odus Hennessee, Cosmetic Specialty Labs, Inc., Lawton, OK.
Mr. Bruce Hopewell, Lincoln Business Help Associates, Inc., New York, NY.
Mr. David C. Houston, president, Northwest Federal Savings & Loan Association, Woodward, OK.
Mrs. Gay Kruglick, Phoenix, AR.
Mr. Michael Lefkiades, Michigan Coni Islands, Inc., Bay City, MI.
Mr. David Longnecker, president, Kiltons of Manchester, Manchester, NH.
Mr. F. Ray McCormick, president, McCormick Construction Co., Inc., El Paso, TX.
Ms. Judy McCoy, McCoy, Goldsmith Jewelers, Dubuque, IA.
Mr. Frederic E. Mohs, Mohs, McDonald and Widdar, Madison, WI.
Mr. Shaw Mudge, Sr., Shaw Mudge & Co., Stamford, CT.
Mr. Bill Nourse, Brookmeade Hardware & Supply, Nashville, TN.
Mr. Larry A. Stanley president and general manager, Empire, Bolt & Screw, Inc., Spokane, WA.
Mr. Rufus Tindol, president, Tindol Services, Inc., Atlanta, GA.
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Committee staff:

Mr. Robert J. Dotchin, staff director.
Mr. John W. Ball III, minority staff director.
Mr. Charles E. Ludlam, minority tax counsel.
Mr. Stephen C. Williams, tax counsel.
Mr. Robert W. Wilson, counsel.
Mr. Milton C. Waddell, Jr., counsel.
Ms. Tracy Crowley, hearing clerk.

National Advisory Council Meeting

AGENDA

Tuesday, October 22, 1985

5:00–6:00 p.m.	Cocktails Capitol Hill Hotel
6:00–8:00 p.m.	Work Session

Wednesday, October 23, 1985

8:15–9:00 a.m.	James C. Sanders Administrator Small Business Administration
9:00–10:00 a.m.	Joseph R. Wright, Jr. Deputy Director Office of Management and Budget
10:00–11:00 a.m.	Michael Stern Minority Staff Director Senate Finance Committee
11:15–12:00 p.m.	Clayton Yeutter United States Trade Representative
12:30–1:45 p.m.	Lunch S–138, Capitol Speaker: Senator Ernest F. Hollings
2:00–4:00 p.m.	Committee Meeting
5:00–7:00 p.m.	Reception S–207, Capitol

FIFTH MEETING OF THE NATIONAL ADVISORY COUNCIL TO THE SENATE COMMITTEE ON SMALL BUSINESS

WEDNESDAY, OCTOBER 23, 1985

U.S. SENATE,
COMMITTEE ON SMALL BUSINESS,
Washington, DC.

The committee met, pursuant to notice, at 2:20 p.m., in room 428A, Russell Senate Office Building, Hon. Lowell Weicker (chairman of the committee) presiding.

Senators present: Senators Weicker, Gorton, Nickles, Kasten, Bumpers, Nunn, Sasser, and Kerry.

Council members present: Mrs. Thelma Stevenson Ablan, Mr. Robert Baker, Mrs. Asta Ball, Mr. Herb Bowden, Mr. Timothy H. Fine, Mr. Walter Floss, Jr., Mr. R. Alan Fuentes, Mr. Odus Hennessee, Mr. Bruce Hopewell, Mr. David L. Houston, Mrs. Gay Kruglick, Mr. Michael Lefkiades, Mr. David Longnecker, Mr. F. Ray McCormick, Ms. Judy McCoy, Mr. Frederic E. Mohs, Mr. Shaw Mudge, Mr. Bill Nourse, Mr. Larry Stanley, Mr. Rufus Tindol, and Mr. Don Munro.

Staff present: Robert J. Dotchin, staff director; John W. Ball III, minority staff director; Charles E. Ludlam, minority tax counsel, Stephen C. Williams, tax counsel; Robert W. Wilson, counsel; Milton C. Waddell, Jr., counsel; and Tracy Crowley, hearing clerk.

Senator GORTON. In the absence of Senator Weicker, who is on the floor engaged in debate, I will call the meeting to order and turn it over to Mr. Mudge to carry it on from this point.

Mr. MUDGE. Thank you very much, Senator. Thank you for attending. There is a debate going on on the floor of the Senate, as you know, right now. Senator Weicker is there. He will be here with the others shortly after.

We are on the record and there are eight items for discussion. The meeting will not be confined only to those eight. We will start off with trade policy. Do you want to do insurance first? All right. We have just changed the order to insurance, and we would like to hear your ideas on the whole question.

Walter, would you like to start the ball rolling?

Mr. FLOSS. Yes. I think one of the most critical things facing small businessmen today is the unavailability of casualty insurance—liability insurance, to be particular. I have found in studies that many industries no longer can produce a product in this country because of the unavailability of products liability insurance, especially. This has been becoming increasingly more difficult for

them not only to obtain, but the deductibles have increased to a point whereby they say, "We may as well run bare, if we do it at all."

I know of an industry in my community that is now manufacturing all their products in the medical monitoring business in Israel, 600 people employed there that could have been employed here. We are losing jobs because of this. But the past year because of the shrinking of even the foreign market, the reinsurance factoring, small businessmen are now getting to the point where they are getting nonrenewal and the inability to find insurance at any rate. Generally, the smaller they are and the more vulnerable they are, the least available the insurance is to them.

Most of this has been attributed to the buildup of reserves for future claims. Tort liability claims in this country are just run amok. Everybody is looking for deep pockets, and if we don't do something to restrain this or limit it in some way, then we are going to be a society without any ability of protecting one's estate and well-being.

So I think that what we are saying in the final resolve here is that the Senate Committee on Small Business conduct hearings on this problem of liability insurance and affordability for small business, and also look into what way that the Federal Government may have some uniformity in products liability insurance. I know I was here twice supporting Senator Kasten's bill, and I am glad that there is an awareness that hasn't moved, but the problem is now worsening and I think that we have to consider those factors.

Mr. MUDGE. Thank you.

Are there comments from someone else? Yes, Fred.

Mr. TINDOL. I just want to endorse the idea of the statement and all, because I have seen it in my industry particularly, and everywhere that I have talked to people it seems to be a real problem, in fact to the point that many companies are dissolving or going out of business or setting up shell organizations. I think this is a pity, that we have to go through this because of just the fact that insurance company coverage will no longer cover individuals or look at individuals. They go by class of business, and this is a dangerous thing as far as industry is concerned, so I endorse the idea.

Mr. MUDGE. Before any further comment, I would like to thank Senator Bumpers for making this possible. I'm sorry. I had my back turned to you, Senator. Thank you very much.

Is there further comment on this issue?

[No response.]

Mr. MUDGE. If there is no further comment, would you be good enough——

Mr. FLOSS. I'll move the resolution.

Mr. MUDGE. Would you be good enough to read——

Mr. FLOSS. The "Resolved"?

Mr. MUDGE [continuing]. The "Resolved" part, yes. The rest we will put in the record.

Mr. FLOSS. "Be it resolved that the National Advisory Council to the Senate Committee on Small Business calls upon the committee to study and conduct hearings on this critical problem of liability insurance availability and affordability for small business, and supports the concept of a Federal liability standard removing the un-

certainty that surrounds this issue, and thereby providing the type of structure that will permit insurance companies to accurately estimate the costs of such insurance."

Mr. MUDGE. Any comment?

[No response.]

Mr. MUDGE. All those in favor of the resolution, please indicate by saying "aye."

[A chorus of ayes.]

Mr. MUDGE. Opposed?

[No response.]

Mr. MUDGE. The resolution is adopted.

[Proposed resolution follows:]

PROPOSED RESOLUTION OF THE NATIONAL ADVISORY COUNCIL ON LIABILITY INSURANCE

Whereas, small businesses currently face a crisis in obtaining liability insurance with reported rate increases of 300 percent to 1000 percent making insurance coverage either unaffordable or unobtainable at any price;

Whereas, the increase in insurance premium rates adds fuel to inflationary engines in the economy as a result of higher costs being passed along in the cost of goods and services;

Whereas, the number of insurance companies offering such liability coverage is steadily decreasing because of high past loss ratios in this type of insurance;

Whereas, many small firms have discontinued uninsurable products and services, others have closed their doors because they cannot continue operations as self-insurers or without insurance;

Whereas, one factor which has contributed to this crisis is the fractured nature of tort law in the various states of our Union which has caused increased unwillingness by insurance companies to provide coverage for firms which do business in a variety of states; and Therefore, be it

Revolved, That the National Advisory Council to the Senate Committee on Small Business calls upon the Committee to study and conduct hearings on this critical problem of liability insurance availability and affordability for small businesses, and supports the concept of a federal liability standard removing the uncertainty that surrounds this issue, and thereby providing the type of structure that will permit insurance companies to accurately estimate the costs of such insurance.

Mr. MUDGE. The next issue is trade policy. We would like to ask Mike Lefkiades, please, to lead the discussion.

Mr. LEFKIADES. Thank you, Mr. Chairman.

For the past several years our trade deficits with our trading partners have been skyrocketing, to the detriment of our industries, our economy, and our small business community. We have attempted to negotiate with our trading partners, and particularly the Japanese, in good faith and good will. However, that has not been true on the part of our trading partners.

Unfortunately, the Japanese have elevated their dilatory tactics to a state of art. It's not possible for us to negotiate with them unless we have some teeth and unless we take action to see that fair trade practices are somewhat brought to a level, an even keel. Anyone who has attempted to negotiate with them knows very well the frustrations in dealing with them, because simply they are not interested in fair trade but they are interested in a trade advantage.

Our own Department of Commerce has a study right now that indicates just for the last year alone our trade deficit has been increased by $10 billion due to unfair Japanese trade practices. This is a study that was made, and they can pinpoint it, and this is the

direct cause, and this is of course the effect that we are talking about, so I propose this resolution——

Mr. MUDGE. Not yet, Mike. I would like to have a discussion with some others, if I may, please.

Mr. LEFKIADES. Certainly.

Mr. MUDGE. Would you accept that?

Mr. LEFKIADES. Certainly.

Mr. MUDGE. Herb, do you have some comments down there? Herb Bowden from Sioux Falls.

Mr. BOWDEN. Yes; I would like to make a couple of comments. We have a scenario that backs this up. We have tried for 2 solid years, and had Japanese representative firms here. We sell products that are triple-patented, some of them, that have no duplication here or there, and after 2 solid years we really believe we have gone into those unseen, unheard trade barriers that are there, that just don't get the job done. A lot of visiting, four trips here, two trips there, nothing has come out of it. I would therefore be very much in agreement with this resolution.

Mr. MUDGE. Do we have some input with some others who have had experience in this issue?

Senator BUMPERS. Mr. Chairman? Excuse me. Go ahead. I would like to hear from Mr. Hennessee.

Mr. MUDGE. Odus Hennessee from Lawton, OK.

Mr. HENNESSEE. We discussed earlier, you know, a lot of the unfair trade practices. I happen to think, since you are keying on the Japanese, I think they are obviously the greatest offenders. But if you look around the world, you will see a lot of countries with unfair barriers, both from import duties and also taxes. That has seemed to be our biggest problem. I certainly support this and I certainly support the efforts of this committee to address that fact, and certainly support the idea that if those countries do not drop some of those barriers, that we should respond in kind.

Mr. MUDGE. Senator Bumpers.

Senator BUMPERS. Mr. Chairman, if I may, I am going to have to run and vote. When you see that one white light on, that means we have 15 minutes to get to the floor, so I apologize and explain in advance why I have to leave. But on this trade issue which, as you know, is on the front burner here as it is all across the country, particularly with small business, Don Munro on my left here, who is my representative on this council is in the shoe manufacturing business. Somewhere between 77 and 80 percent of all the shoes in this country right now are being imported, so I don't know of anybody who has a deeper and more abiding interest in this than Don has.

I get quite a bit of mail from people, and you can usually tell where the mail is coming from. I mean, sometimes the retail people don't like this idea of what they call protectionism, and I can understand that. I frankly would much rather see the President and the International Trade Commission and our trade ambassador deal with this in a sensible way than to have Congress doing it on an ad hoc basis, saying, "Well, today we're going to have a bill on textiles; tomorrow we're going to deal with Canadian imports of lumber; and the next day we're going to take up shoes; and the next day we're going to take up aluminum; and so on." As you

know, Congress has a penchant for making matters worse than they already are when Congress gets involved in a matter like this.

But, by the same token, we have no trade policy. I was a staunch defender of the President's trade policy until about 2 or 3 years ago, and with these trade deficits and all that that portends for the future of the country and what it's doing especially to small business in this country, I can no longer stand idly by and hide behind some myopic ideological bent on this issue of trade while we lose somewhere around 3 to 4 million jobs every 5 or 6 years.

We are not suggesting anything like the old Smoot-Hawley law—that's the redherring that everybody throws up every time you talk about trade: "Look what happened when Smoot-Hawley was passed." Economists will tell you that that was not the catalyst that brought on the Great Depression. The Great Depression was on its way before Smoot-Hawley was signed, and if you will look at the chronology of events back then you will see that historically that fact is borne out. Smoot-Hawley was a bad idea, should have not been passed, but it is not the thing that precipitated the Great Depression.

So all I want to say is that what Congress is doing may not be the best thing in the world, but we don't know how to get the President's attention any other way. The textile bill, which is probably going to be offered on the floor on the reconciliation bill tomorrow, is not a protectionist bill. It does not establish a quota. It does not impose tariffs. What it does do is to say that in the future we will enforce bilateral agreements on textiles and shoes that we have with 32 nations, agreements which were entered into in good faith and which are being flagrantly violated unilaterally by the people with whom we entered into those agreements.

So all we are saying is, we are not saying, "You can't ship products to this country." This only deals with textiles, but we are not saying we are going to cut off all textile imports into this country, but in the future we're not going to be the patsy. This is not the end of the Third World's efforts to improve their economy. It is an attempt to bring some fairness and some equity to this trade issue, without which we are going to sink our ship.

And so while I have rather ambivalent feelings, especially about Congress getting involved in this, I don't think Congress has any choice now. I appreciate the comments all of you have made on the trade issue. I know that I am only speaking for myself. Senator Gorton here may have something else to say on that, but I can tell you that the President is going to lose and Congress is going to override vetoes unless there is a more forthright effort on the part of the President to deal with this issue.

Mr. MUDGE. Thank you very much, Senator.

Senator Gorton.

Senator GORTON. I too have to leave. I want to say that I agree with the great bulk of what Senator Bumpers has said. It is far better that we have a thoroughgoing, wide-ranging trade policy which is flexible, and that can only take place through an aggressive attitude on the part of this or any other administration.

I don't agree with Senator Bumpers on the textile bill. I think it's very regressive and very dangerous, and I think we probably both agree that it isn't going to become law at this point because,

while it has a majority in the Congress, the President will veto it and it won't be passed over that veto. But it is—and he is entirely right in this respect—it is a sign of the frustration in Congress over a response on the part of the administration which is totally inadequate to the problem of giving our exporters an even break in the world.

I have read your resolution on this subject and I think it's exactly, 100 percent on target.

Mr. MUDGE. Thank you very much, sir.

Senator Weicker.

Senator WEICKER. Thank you very much for bringing this council into being and for providing, with Senator Bumpers, such a superb council. It has been a very, very productive group so far. We hope that you will share that.

Shaw, thank you very much, and I want to thank all of you for the tremendous effort which you have made to be with us here in Washington. If I had to summarize what it is that we have been doing, I would say that it all comes down to two exercises, one to preserve the Small Business Administration, which took the best part of the year. And the second, continuing exercise—and I say this as the chairman of this specific committee—but which involves all of us as U.S. Senators, is to reduce the deficit and bring the budget under control.

Now, first of all, let me just give you a brief report on the status of the Small Business Administration. If you had to ask me confidentially as to what I think is the principal reason for having beaten the administration on their proposal to eliminate the Small Business Administration, I would honestly answer that it is because of the quality of administration brought to the agency by Jim Sanders. And, that was part of the irony of it all. Three years ago any administration could have zeroed in on SBA and, believe me, there would have been one horror story after another. It wouldn't have lasted 2 days.

But thanks to the appointee of this administration, Jim Sanders, major improvements were made. He went into that agency and, beleive me, did he clean house. He was able to bring up the quality of people in the agency and take politics out of it so that the agency could perform in a businesslike operation. I wouldn't have had two supporters out there for preserving SBA prior to Jim Sanders' administration of the agency. I really wouldn't have, but as it was I had a raft of them whose new experiences with SBA—and seeing what Jim was doing with the agency—made them partisans on behalf of the Small Business Administration.

So that is the first point. SBA is a different agency, and you should be very proud of it in the sense of what it is today. I don't mean to say it doesn't have its shortcomings, but it is not a political dumping ground for every hack of either party. It is no longer doling out money based on what the political effect of the loan is going to be. It is truly an agency in transition, and there is a degree of integrity that it has never had before.

Point No. 2—as to why we won—I think it was because of a fatal, tactical mistake of the administration. We were fighting this battle, where the administration was saying, "We want to eliminate the agency," and I was saying, "We want to keep the agency."

The administration had gotten as allies some of the big trade associations to support their position. They had not gotten the support of the National Federation of Independent Businessmen, and to the credit of John Sloan, their president. John held out for a long time. Obviously it was the big association and the administration wanted to have them aboard, and John held out, I think, for as long as he dared or could. I think probably because of the pressure of his membership—he is responsible to his membership, and he is not responsible to me or to the administration—he made the decision that some compromise should be arrived at. So he went to the White House and met with Stockman, and he got Stockman to agree the agency should remain, albeit in an almost 90 percent reduced role.

So you might say, "Well, what's such a big deal about that?" I'll tell you what was a big deal about it. The minute the administration agreed to that, then all of the allies of the administration in the Senate who has been told to sell the line, "We are going to eliminate the agency," said, "Whoa. Here I am taking this political heat"—in many instances—"for advocating the administration's line, and yet somebody who is not a U.S. Senator goes in there and gets this concession where indeed at least the agency is going to be preserved."

It was a tactical mistake, and at that juncture a bunch of Senators said, "Hell, if it's going to be preserved, there is no reason why it shouldn't be doing something." At that stage of the game the administration fell into the hands of our committee, because we had so tailored the SBA authorization bill that we had introduced to achieve substantial outlay savings and make big program reductions and cuts, while retaining only the really good programs.

So that's where the fight was won, and I am enormously proud of the many people that participated in that fight, many of them in this room, the staff of this committee. One thing, so that if it gets back to the administration, I know a lot of the more conservative zealots in the administration are pointing to Jim Sanders as a traitor.

Ladies and gentlemen, let me say one thing: Jim Sanders had nothing to do with the defeat of the administration's proposal, except that—except that—he did his job well for the administration that appointed him. As I understand it, an employee does owe his or her loyalty to his or her employer, and when Jim Sanders was hired as the Administrator, he did his job well. He did it so well that in a way he immunized the agency from being eliminated. He did not in any way undermine the President's proposal. Once that proposal was made, he had to stay on the side of the administration.

So that is an accurate story of where we stood on that issue. I am glad that it worked out the way it did. Indeed, over the last 3 or 4 years, since I have taken over the chairmanship of the committee, we have tried, in conjuction with Sanders, to streamline the agency, to cut the fat, to cut the dollars, and to get out of the business just lending money and into the business of giving managerial advice. I am very proud of the work product that has evolved. I am also especially proud that so much of the work of the committee has related to matters that you have raised as an advisory council,

and that the White House Conference on Small Business raised in 1980, and, indeed, we will listen to the matters of concern that will be raised in the new White House Conference on Small Business.

The second aspect of our jobs, which I mentioned earlier, has been the matter of the deficit, which I know is of concern to all of you. You will get varying points of view around this table from the various Senators as to how best to reduce the deficit. You have heard me say all along as we have met over the past couple of years, that I do believe in a balanced budget, but I don't believe in balanced budget amendments. I don't believe in line-item vetoes or constitutional amendments to balance the budget. There is nothing wrong with the Constitution. It's fine. Leave it alone. There is a lot wrong with the willingness of anybody around here, including the President and the Congress, to stand up and do the things necessary to balance the budget.

I can't give you a clearer example in my opinion—and there are those Senators that will dispute this—than Gramm-Rudman, which I voted against. Within 24 hours after passing Gramm-Rudman, the Senate acted on three amendments, one to reduce defense spending by 5 percent—I think there were nine of us that voted for that—another one to raise the gasoline tax 18 cents and apply it to the deficit, and I think seven of us voted for that, and then a last one to include Social Security and the entitlement programs within the budget reduction process. If you can tell me how the hell you are going to balance this budget without raising taxes, reducing defense spending, and getting the entitlements into line, I would like to know what it is. Believe me, you'll be elected President of the United States. [Laughter.]

There it is. It's as simple as that. But that is what has to be done. That's where the money is. That's where the money is. Growth isn't going to take care of the problem. We've heard that one before. I am speaking personally, not as chairman of the committee. No, I don't think tax reform is going to take care of it. I mean, that's a net revenue loser, not a gainer.

So we have all, as individual Senators, had our own points of view, but this much I can assure you—which I suppose is a step in the right direction because for so many years and in the experience of many around this room nobody in Washington gave a damn about the budget or the deficit or anything else—it's the No. 1 matter on everybody's mind around here. And, regardless of the point of view that is held by anyone as to how we do it, everybody is agreed on the fact that we clearly have to take positive action.

That's my very brief report to all of you, and now I would hope that we could continue with your deliberations around this table.

Mr. MUDGE. Thank you.

Senator WEICKER. Has my friend, Bob Kasten, had a——

Mr. MUDGE. We want to welcome Senator Kasten.

Senator WEICKER. Has he had a chance to talk yet?

Mr. MUDGE. He just sat down.

Senator WEICKER. Well, I saw him running over to vote. Bob is a very valued member of this committee, and I would like to hear from him.

Senator KASTEN. I am here to listen, Lowell. Thank you. I'll get caught up to what some of these issues are, and I'll pitch in when I can. Thank you very much for your comments.

Mr. MUDGE. Thank you, Senator Kasten.

Shall we proceed with the agenda? Would you be good enough, Mike, to introduce the resolution?

Mr. LEFKIADES. I believe that Mr.—did you finish? Do you want to make some comments?

Mr. BOWDEN. [Shakes head negatively.]

Mr. LEFKIADES. OK. Well, I would like to point out that this resolution is a resolution that will enable our U.S. Trade Representative to take measures to reduce the trade deficit from an offending party by the amount that the U.S. Department of Commerce determines that this particular portion of the deficit was created by unfair trade practices. In other words, we want to have some teeth, we want to put some force in the actions of our Trade Representative, not to negotiate the way that the Japanese have been negotiating or perhaps some other countries have been negotiating up to this point. We want him to have in his possession the Department of Commerce study that shows last year alone $10 billion in trade deficits were due to unfair trade practices on the part of the Japanese. We are not talking about the entire——

Mr. MUDGE. May I just ask you if you could read the resolution, Mike.

Mr. LEFKIADES. Yes. Very good.

Therefore, be it *Resolved*, That the National Advisory Council to the United States Senate on Small Business calls upon the President and the Congress of the United States to take comprehensive action this year to insist that our trading partners promptly reciprocate our free and fair trade policies, including following the recommendations of the International Trade Commission and, in the event that such trading partners fail to reciprocate, the President, the United States Trade Representative, the International Trade Commission, and the United States Commerce Department shall take direct action under current trade laws to reduce imports from such country to the full extent of such failure or offset the advantages of any unfair trade practice which contributes to the United States trade deficit with such country.

Mr. MUDGE. Before calling for a vote, I would like to ask David Houston for his comments.

Mr. HOUSTON. I am in support for the resolution and all the discussion we have had. I think the only thing that we need to realize is the impact that totally reducing imports will have on domestic interest rates. These are interest rates that are artificially inflated right now and that agriculture and a lot of sectors of the market cannot afford an increase, so I think we need to be careful. You know, if we "cold turkey" stop some form of import, it will have an impact on interest rates. I am in favor of the resolution——

Mr. LEFKIADES. We are not taking about—we are talking about strictly the amount——

Mr. MUDGE. Thank you, Mike.

Mr. LEFKIADES [continuing]. That was created due to unfair trade practices.

Mr. MUDGE. Mike, please.

All those in favor, please indicate by saying "aye."

[A chorus of ayes.]

Mr. MUDGE. Opposed?

[No response.]

Mr. MUDGE. The resolution is passed. Thank you very much.

[Proposed resolution follows:]

PROPOSED RESOLUTION OF NATIONAL ADVISORY COUNCIL ON FOREIGN TRADE

Whereas, the United States trade deficit threatens the economic well-being of the United States;

Whereas, for the first time since World War I, the United States is a debtor nation, owing its trading partners more than they owe us;

Whereas, the Unites States trade practices are more free and fair than those of most of our trading partners;

Whereas, small businesses are particularly harmed by unfair trade practices;

Whereas, the President has elected not to follow the recommendations of the International Trade Commission; Therefore, be it

Resolved, That the National Advisory Council to the Senate Committee on Small Business calls upon the President and the Congress of the United States to take comprehensive action this year to insist that our trading partners promptly reciprocate our free and fair trade policies, including following the recommendations of the International Trade Commission and, in the event that such trading partners fail to reciprocate, the President, the United States Trade Representative, the International Trade Commission, and the U.S. Commerce Department shall take direct action under current trade laws to reduce imports from such country to the full extent of such failure or offset the advantages of any unfair trade practice which contributes to the United States trade deficit with such country.

Mr. MUDGE. We will move on, then, to the issue of tax reform, and we will call on Bill Nourse, please, to lead the discussion.

Mr. NOURSE. Mr. Chairman, thank you. As we all know, both Houses of Congress are considering what they are calling tax reform. This committee, the Small Business Committee of the Senate, had the wisdom this year to hold hearings across the country, and I think the results of those hearings from one end of the country to the other pretty well make it clear that small business does not receive that reform package, particularly "Treasury II," to be any thing fair for small business.

In our discussion last night, it was clear that the views around this table are very wide and far-reaching in their impact, but I think the consensus was that if that's the best they can do, they ought to leave it alone, and I think our resolution reflects that. But if they are going to change the Tax Code, there are certain things that we feel impact small business dramatically that ought to be seriously considered in the reform, particularly from the view of retaining, and I will just mention those briefly, Shaw: capital gains treatment; the graduated rate, particularly if they are going to lower the upper rates; direct expensing; the investment tax credit; tax-exempt financing for small business; and some form of accelerated depreciation.

It was the consensus of a lot of those hearings that when you take away a lot of these deductions and incentives, as they are called, under the present proposal you are reducing the upper rates for large business but you are not reducing the lower rates for small business, so the effect translated into a major increase for most small businesses. As I mentioned last night in our meetings, in preparation for a talk show we did over two small business firms' tax returns for 1984 in Nashville.

A manufacturer with 60 employees had sales of $9.5 million, and their tax return for 1984, refigured under "Treasury II," would have experienced a 17-percent increase in taxes. A smaller firm in

the service sector with sales of $2.5 million, 20 employees, the exact size company that Congress and the U.S. Government says is the most efficient for creating jobs, would have experienced a 254-percent increase in tax liability for 1984.

It's hard to generalize but when you lay both of those returns against what was published in the Wall Street Journal about the Lockheed Corp., I don't think it's too hard to draw the impression that the smaller you get on the scale of business, the more you are going to experience an increase. So basically the resolution that is before us reflects the views of this advisory body, Shaw.

Mr. MUDGE. Thank you, Bill.

A comment from someone else, please?

Mr. STANLEY. I would like to comment.

Mr. MUDGE. Yes, please do. Mr. Stanley from Spokane, Washington.

Mr. STANLEY. One of my concerns, and I think the concern of small business in general, is this complex system of tax arrangement that we have and the constant changes that seem to be taking place, and we are addressing that in this resolution. But we in small business, just like large business, business in general needs stability in tax laws so that we know how to effectively plan for the future without the constant changes, and that is one of the things that we are obviously addressing in this situation.

Mr. MUDGE. Very good.

David Houston.

Mr. HOUSTON. I would like—we talked a little bit last night, and it's not in here—to include the deductibility of the loan loss provision, that that be maintained. Particularly, I come from the Midwest and financial institutions in the Midwest have been devastated by the agricultural decline and the oil and gas decline. There's a lot of very marginal financial institutions out there. Senator Weicker has already talked about the Small Business Administration and tools that Small Business has as sources for loans. If we take away that deductibility of the loan loss provision at this particular point in the economy, it could be devastating and cause the demise of some of these financial institutions. I assure you, as a small business owner you do not want to go into your local community to reneotiate your inventory debt with the FDIC, so I would suggest that we include that back in this list.

Mr. MUDGE. Any further comment?

[No response.]

Mr. MUDGE. Would you move the question, please, Bill?

Mr. NOURSE. Shaw, do you want to move for the inclusion of his amendment first? I have no problem with it but I think we ought to get a vote on it.

Mr. MUDGE. Should we move the amendment?

Mr. NOURSE. Move for this point to be included in the provision, because it will not be in what I am——

Mr. MUDGE. All in favor of including David Houston's amendment, please indicate it by saying aye.

[A chorus of ayes.]

Mr. MUDGE. Opposed?

[No response.]

Mr. MUDGE. It is passed.

Now would you please introduce the resolution?

Mr. NOURSE. Sure.

"Therefore, be it resolved that the National Advisory Council to the United States Senate Committee on Small Business does not believe that the fundamental change in the tax code is warranted, with the exception of a strong corporate minimum tax. Should Congress decide to enact comprehensive tax reform, any such revision of the tax code must recognize the needs of small business as reflected in the specific small business tax provisions cited above."

Mr. MUDGE. Move the adoption. All those in favor, please signify by saying "aye."

[A chorus of ayes.]

Mr. MUDGE. Opposed?

[No response.]

Mr. MUDGE. It is passed.

[Proposed resolution follows:]

RESOLUTION OF NATIONAL ADVISORY COUNCIL ON PROPOSED TAX REFORM

Whereas, small business is a critical segment of our national economy, whose employment expanded by 11.4 percent between 1982 and 1984, compared with only 5.3 percent employment growth for large firms during this same period;

Whereas, small business produces a more-than-proportionate share of net new jobs relative to the small business share of total employment;

Whereas, small business generally does not have access to public capital markets, and therefore, often has to rely on retained earnings to fund its growth and operations;

Whereas, Congress is currently considering comprehensive reform of the income tax code;

Whereas, there are a number of major provisions of the tax code affecting the ability of small business to retain earnings which are currently being recommended for change, either by limitation or elimination;

Whereas, the concerns of small business are often over-looked in important tax legislation;

Whereas, in the last four years, Congress has enacted three major tax revision bills and the small business community desires stability in the tax code in order to be able to make long-term economic decisions;

Whereas, the tax concerns of small business must be adequately addressed for any tax reform bill to be truly equitable;

Whereas, small business is nearly unanimous in its support of the retention of certain provisions of the tax code, including the preferential treatment of capital gains, graduated corporate income tax rates, the investment tax credit, direct expensing, and some form of accelerated depreciation; Therefore, be it

Resolved, That the National Advisory Council to the United States Senate Committee on Small Business does not believe that fundamental change in the tax code is warranted, with the exception of a strong corporate minimum tax. Should Congress decide to enact comprehensive tax reform, any such revision of the tax code must recognize the needs of small businesses as reflected in the specific small business tax provisions cited above.

Mr. MUDGE. I would like to welcome Senator Nickles and thank him for coming.

Would you like to comment on this, Senator Weicker?

Senator WEICKER. I am going to now ask my friends, Senator Nickles and Senator Kasten, to be here as long as they can at the hearing. Senator Kassebaum has an amendment on the floor right now which in effect eliminates mass transit, which is of some interest to my particular State, and I really think I should be on the floor of the U.S. Senate, so I wonder if you might assist with the——

Senator NICKLES. Mr. Chairman, I'll be happy to. I am involved in an Intelligence meeting that I need to get back to. I will try to return but I wanted to come up. The meeting is, what, estimated to go until 4? Is that——

Mr. MUDGE. Probably a little bit after.

Senator NICKLES. A little bit after?

Mr. MUDGE. Yes, sir.

Senator WEICKER. I will be right back. Bob, can you take a few minutes here? I'm not going to spend a lot of time. I'm just going to go over there.

Senator KASTEN. I'll be here as long as I can.

Senator WEICKER. Thank you very much.

Senator NICKLES. I might just comment, Mr. Chairman, that I appreciate the Advisory Council and their meeting. As a small businessman from Oklahoma—that's what I did when I made an honest living——

[Laughter.]

Senator NICKLES [continuing]. I appreciate your input, and I think it's very important. We need to get more small business participation and input on a myriad of issues. I think you can have a very effective voice by your presence on this committee or by your individual comments to your Members in the Senate or the House, in letting them know how you feel on the issues of importance to all of us. I hope and encourage you to continue your good job.

Thank you.

Mr. MUDGE. Thank you very much for making this possible, Senator.

We would like to call upon Timothy Fine from California to discuss the antitrust enforcement.

Mr. FINE. I don't have a mike, so I'm just going to stand up.

I think all of us know that one of the charters of the free enterprise system of this country has been the Sherman and Clayton antitrust laws. Through the years they have been a bulwark against the development of the American economy into a cartel or monopolistic system that is the economy of many other countries. These antitrust laws have been Republican and Democrat alike. In fact, the Sherman Act was enacted during the Republican administration of Benjamin Harrison, the Clayton Act during the administration of Woodrow Wilson.

They have particularly been the bulwark of American small business and the proliferation of an economy of many small units competing in the open marketplace. Unfortunately, starting in 1981 the antitrust laws were relegated to an obsolete heap by those who propounded the Chicago school of economics and other theories which are open and questionable.

Fortunately, there have been members of this committee and many outstanding Republican and Democratic Senators who contend the antitrust laws are viable, needed, and should be maintained. I particularly feel, and I think small business in general feels that this is our shield against monopoly, price-fixing, and other anticompetitive activities which would relegate small business to virtually a serf-type existence.

We have prepared this resolution on antitrust enforcement to continue to insist that this charter of economic freedom, as it has

been called time and time again, be maintained and vigorously enforced as part of our free enterprise system.

Mr. MUDGE. Does anybody have a comment on this?

[No response.]

Mr. MUDGE. Would you be good enough, please, Mr. Fine, to provide a resolution?

Mr. FINE. Yes. It provides as follows:

"Resolved, that the Federal Trade Commission and the Antitrust Division of the Department of Justice are urged to vigorously enforce the antitrust laws of the United States in the following areas where enforcement is now lacking: (a) anticompetitive mergers and acquisitions; (b) resale price maintenance; (c) typing arrangements; and (d) unreasonable territorial and customer restrictions.

"Second, Senator Rudman and the other Members of the Senate Committee on Small Business are to be commended for their opposition to the 'Vertical Restraints Guidelines' published by the Department of Justice on January 23, 1985—which do not accurately state current antitrust law—and for urging that the 'Vertical Restraints Guidelines' be withdrawn as per Senate Concurrent Resolution 56;

"Third, the Senate Committee on Small Business is urged to oppose the efforts of Secretary of Commerce Malcolm Baldrige to abolish section 7 of the Clayton Act that makes illegal mergers and acquisitions which may unreasonably restrain competition or increase monopoly in any line of commerce; and

"Fourth, the Senate Committee on Small Business is urged to insist that the Administration appoint a recognized spokesman for small business to the Administration's current Task Force on Antitrust."

I move its adoption.

Mr. MUDGE. Yes, sir. Thank you.

Fred.

Mr. TINDOL. The question is, under the next to the last paragraph, is all of section 7 dealing with the abolishment of the Clayton Act? In other words, you say they would remove all of section 7. Does section 7 address any other matters that might be less objectionable?

Mr. FINE. No. Section 7 is what is commonly called the Seller-Kafauver antimerger amendment to the Clayton Act, passed in 1950, which deals strictly with the area of anticompetitive mergers and acquisitions. Other sections of the Clayton Act, like 1, 2, 3, 4, 14, deal with other areas, but section 7 targets only anticompetitive mergers and acquisitions.

Mr. TINDOL. By the way, the spelling of "mergers"——

Mr. FINE. Yes, it is a typo there.

Mr. MUDGE. If there is no further discussion on the resolution, we will call for a motion. All those in favor, signify by saying "aye."

[A chorus of ayes.]

Mr. MUDGE. Opposed?

[No response.]

Mr. MUDGE. It is passed. Thank you very much.

[Proposed resolution follows:]

RESOLUTION OF NATIONAL ADVISORY COUNCIL ON ANTITRUST ENFORCEMENT

Whereas, the antitrust laws of the United States have been the strong underpinning of the American free enterprise system through insuring a free and open marketplace;

Whereas, the antitrust laws of the United States is the first line of defense against anticompetitive activity and is critical to the health of the economy and the survival of small business;

Whereas, the antitrust laws of the United States have insured the integrity and independence of the American small businessperson in being able to decide which products to handle, where and to whom to sell such products and the prices at which such products are sold; Therefore, be it

Resolved, That the National Advisory Council to the Senate Committee on Small Business resolves as follows:

First, that the Federal Trade Commission and the Antitrust Division of the Department of Justice are urged to vigorously enforce the antitrust laws of the United States in the following areas where enforcement is now lacking:

A. Anticompetitive mergers and acquisitions;

B. Resale price maintenance;

C. Tying arrangements; and

D. Unreasonable territorial and customer restrictions.

Second, Senator Rudman and the other Members of the Senate Committee on Small Business are to be commended for their opposition to the "Vertical Restraints Guidelines" published by the Department of Justice on January 23, 1985—which do not accurately state current antitrust law—and for urging that the Vertical Restraints Guidelines be withdrawn as per Senate Concurrent Resolution 56;

Third, the Senate Committee on Small Business is urged to oppose the efforts of Secretary of Commerce Malcolm Baldrige to abolish Section 7 of the Clayton Act that makes illegal merges and acquisitions which may unreasonably restrain competition or increase monopoly in any line of comerce; and

Fourth, the Senate Committee on Small Business is urged to insist that the Administration appoint a recognized spokesman for small business to the Administration's current Task Force on Antitrust.

Mr. MUDGE. Senator Kasten, would you like to comment on anything that we have had so far, or shall we continue with the agenda?

Senator KASTEN. Go ahead.

Mr. MUDGE. Well, we are going to discuss now the implementation of the Prompt Payment Act, and I will ask Alan Fuentes to lead the discussion.

Mr. FUENTES. Thank you, Mr. Chairman.

In 1982 Congress passed a law entitled the "Prompt Payment Act," with all good intentions. However, since the implementation of this act the fact is that it has degradated the payment system. That is, before the Prompt Payment Act, myself being a Federal contractor, I was paid on an average of 38 days. Since the Prompt Payment Act, I am being paid on an average of 60-plus days. [Laughter.]

The problem is that the Congress has given the Federal agencies 30 days to pay their bills plus a 2-week grace period. Therefore, most paying agencies wait for the 30th day before they start processing the payment, which gives them 2 more weeks to get the check out into the contractor's hand before being obligated to pay interest. If in fact there is an error in the invoice, they will generally, as a rule—and I can speak from experience—wait until the 44th day to inform you that you have an error. Thereby, they send the invoice back to you, you correct the error, submit it again, and the clock starts over again.

That was not the intent of Congress when they passed the Prompt Payment Act. It was in fact a law to create more competi-

tion. If the Government could get away from the reputation of being slow-paying and quit hearing these horror stories of people not being paid for 6 to 12 months, it would encourage more small businesses to do business with the Federal Government. More businesses doing business with the Federal Government would lower prices. If we could receive money in a prompt manner, we wouldn't have to borrow so much money to float the Federal Government. Thereby, we could lower our prices. Therefore, I would like to introduce this resolution to the committee.

Mr. MUDGE. Thank you very much, Mr. Fuentes.

Is there input from anyone else on the committee?

[No response.]

Mr. MUDGE. Would you be good enough, please, to move the resolution?

Mr. FUENTES. I would like to move the resolution.

Mr. MUDGE. Please read it.

Mr. FUENTES [reading]:

Therefore, be it resolved that, the National Advisory Council to the Senate Committee on Small Business calls upon the Congress, especially the Senate and House Committees on Small Business, the Senate Governmental Affairs Committee, and the House Government Operations Committee which were instrumental in the passage of the Prompt Payment Act to:

1. Conduct oversight hearings on the implementation of the Prompt Payment Act through OMB Circular A-125, the Federal Acquisition Regulation, and the implementing regulations of individual Federal agencies; and

2. To consider modifications to the Prompt Payment Act that will address demonstrated implementational abuses by some Federal agencies and assure attainment of Congressional intent and objectives in passing the act.

Mr. MUDGE. Is there any discussion on the resolution?

[No response.]

Mr. MUDGE. If not, all those who are in favor, kindly signify by saying "aye."

[A chorus of ayes.]

Mr. MUDGE. Opposed?

[No response.]

Mr. MUDGE. The resolution is passed. Thank you very much, Mr. Fuentes.

[Proposed resolution follows:]

RESOLUTION OF NATIONAL ADVISORY COUNCIL ON IMPLEMENTATION OF THE PROMPT PAYMENT ACT

Whereas, the members of the National Advisory Council to the Senate Committee on Small Business, having considered the Federal agency implementation of the Prompt Payment Act, Public Law 97-177, during the three years since it became effective on October 1, 1982, have found that the objectives of the legislation and the intent of Congress are not being fully attained;

Whereas, some Federal agencies continue to make payments beyond the payment date specified in its contracts or beyond the times specified in the Act, without the payment of interest;

Whereas, some Federal agencies are abusing the fifteen day "grace period" provided in the Act by failing to initiate payment action on contractors' invoices until the expiration of thirty days;

Whereas, some Federal agencies are delaying payments to small business contractors by rejecting their invoices as "improper" after the fifteen days provided by the Act;

Whereas, some Federal agencies are delaying payments to small business contractors by refusing formal acceptance of supplies, services or construction so as to delay the start of the payment periods mandated by the Act, after which interest must be paid;

Whereas, some Federal agencies are failing to automatically pay interest due to small business contractors, rather requiring them to make a demand for payment of interest contrary to the Act's self-enforcing intent;

Whereas, these problems with agency implementation of the Act are placing substantial financing burdens on small business government contractors, and acting as an obstacle to small business participation in the Federal procurement market, thus denying the Government the advantages of the competition, industry, and innovation provided by many small businesses; Therefore, be it Resolved, That the National Advisory Council to the Senate Committee on Small Business calls upon the Congress, especially the Senate and House Committees on Small Business, the Senate Governmental Affairs Committee, and the House Government Operations Committee which were instrumental in the passage of the Prompt Payment Act, to:

1. Conduct oversight hearings on the implementation of the Prompt Payment Act through OMB Circular A-125, the Federal Acquisition Regulation, and the implementing regulations of individual Federal agencies; and

2. To consider modifications to the Prompt Payment Act that will address demonstrated implementation abuses by some Federal agencies and assure attainment of Congressional intent and objectives in passing the Act.

Mr. MUDGE. Let me call on Robert Baker from Massachusetts to please lead the discussion on the independence of the Small Business Administration.

Mr. BAKER. I'll have to speak without a mike.

I think the distinguished chairman laid out a very chronological explanation of how the SBA was preserved and how effective the national lobbying groups had been. I would like to talk a little bit about the programmatic aspects of the SBA because I think there is still some jeopardy that the SBA could remain in its present form without any funding.

I think it is important to note that the SBA's programs, the way they are structured right now, have a lot to do with leveraging private sector dollars. It is not a giveaway. It is an intervention into credit markets where capital wouldn't be available to small businesses. We are talking about closely held, nonpublicly held enterprises that don't have access to money on Wall Street and that are the backbone and, from all apparent studies, the growth of jobs in this country.

So that the SBA program, it is important to note, not only should the SBA be maintained in its existence but their guaranteed loan program, their 503 concept which leverages local participation, their preferred lending program, their 7(a) guarantee program, their surety bond program, should be maintained throughout the system. I would like to submit that the SBA should be retained, but at its current funding level, at least for the next few years.

Mr. MUDGE. Thank you, sir.

May I have further comment?

[No response.]

Mr. MUDGE. Would you kindly read the resolution, Mr. Baker?

Mr. BAKER. The whole thing, Shaw?

Mr. MUDGE. The "Resolved."

Mr. BAKER. "Therefore, be it resolved that, the National Advisory Council to the Senate Committee on Small Business calls upon the President and the entire Congress of the United States to enact legislation consistent with S. 408, which maintains SBA as an independent agency and maintains adequate funding"—and I would put in parenthesis on that motion, at its current funding level—"for its essential lending, management, procurement and advocacy functions, and further, that the President in future budget submis-

sions to Congress, submit recommendations consistent with this Congressional action."

Mr. MUDGE. Any discussion on the resolution as read?

[No response.]

Mr. MUDGE. All those who are in favor of the resolution as read with the amended language, "at its current funding level," after the words "funding for," signify by saying "aye."

[A chorus of ayes.]

Mr. MUDGE. Opposed?

[No response.]

Mr. MUDGE. The resolution as amended is passed.

[Proposed resolution follows:]

RESOLUTION OF NATIONAL ADVISORY COUNCIL ON THE SMALL BUSINESS ADMINISTRATION

Whereas, the Small Business Administration (SBA) was established as an independent Federal agency in 1953, and is the only agency in the Executive Branch whose sole mission is to serve, promote and protect this nation's 14 million small enterprises;

Whereas, small businesses annually lead the country in job creation, productivity and innovation, and provide the key to our overall economic growth;

Whereas, SBA has an impressive 32 year record of providing critical financial and management assistance which is not otherwise available to small business owners and operators;

Whereas, the United States Senate, in passing S. 408, a three year authorization bill for SBA by an overwhelming vote of 94 to 3 on July 16, 1985, has already agreed to preserve SBA as an independent Federal agency; Therefore, be it

Resolved, That the National Advisory Council to the Senate Committee on Small Business calls upon the President and the entire Congress of the United States to enact legislation consistent with S. 408, which maintains SBA as an independent agency and maintains adequate funding for its essential lending, management, procurement and advocacy functions, and further, that the President, in future budget submissions to Congress, submit recommendations consistent with this Congressional action.

Mr. MUDGE. I would like to invite Walter Floss from New York to lead the discussion on investment tax credit.

Mr. FLOSS. Thank you, Mr. Chairman.

Whenever Government gives someone a tax subsidy or some tax breaks, other taxpayers have to pick up the difference. Before Government gives tax incentives, they should weigh carefully what benefit do those taxpayers who will be paying more gain from this? The administration, when they decided to give accelerated depreciation and investment tax credit for the purchase of new machinery, et cetera, the intent was that it would spur the economy, thereby producing more jobs and more taxpayers. Therefore, there would be an even break there.

Unfortunately, we include those tax incentives on those manufactured items purchased from overseas, to a greater and greater extent. It is no longer than justifiable that the taxpayers should be picking up this burden because the benefits are now inured by people in foreign nations. Their jobs are increased. We have also a problem, and one of our greatest problems is our trade imbalance.

So my proposal is that, rather than throw out the baby with the bath water and do away with things that would spur the economy, that we revise the investment tax credit and revise the accelerated depreciation to pertain to only those items made wholly within the United States. This would not in any way be considered as some-

thing that would be an affront to other nations as far as the fair trade rules that we are working under. This is a tax incentive.

That's something else, and I think it can be done and it should be done because it will not only solve a little piece of the deficit—in other words, revenues now that we are losing we would gain for those items that people are still purchasing, that were built in a foreign nation—but, further, it would help somewhat then in our trade imbalance, because if the incentive was only to those people that buy a typewriter made in this country, maybe somebody would start making typewriters again in this country, and computers and other things.

So I think that its time has come, and that revision should come about, and I think it would help on many of the—help at least a little way—some of the problems that we have, both in deficit and in trade imbalance.

Mr. MUDGE. Thank you.

Mr. Tindol.

Mr. TINDOL. I don't mean to encumber this thing, and it may not be necessary, but what about when you've got like the manufacture of something that the total is only partially from foreign, like the new cars, et cetera, that they bring the parts in—part of the parts in—from a foreign nation and they put it together here, with maybe 50 percent or more of the parts coming from the United States? How are you going to address that?

Mr. FLOSS. Well, that, of course, when you get down to nuts and bolts, I am making a broad—we are making a broad resolution that a program like this should be adopted. If you want to refine it and then we will get into the foreign content, say, of a vehicle, we actually could make them publish foreign content. I know I——

Mr. TINDOL. I don't mean to encumber it. I just wanted to ask the question.

Mr. FLOSS. Right. No, but I think those are details that that would go into—the Codes Committee would have to refine and define what was really meant by "product made in the United States."

Mr. TINDOL. Well, they are getting more and more of this, what I was just talking about.

Mr. FLOSS. I think that on most things, such as a machine that either can be made here or it is copied by Japan and sold back here, you're talking about those items. If you talk about a vehicle, yes, but that could be handled by the content type of legislation, that the manufacturer of a vehicle would have to put a sticker on showing what content of that or what percentage of that vehicle was actually built and manufactured and the components were manufactured in the United States, as compared with those that may be built in Canada. That's one of the places where we see a lot of that is, you think you bought a Chevy and you're buying a United States Chevy, but you really didn't realize that most of it came from Canada. That can be handled, though, by the details in this code.

Mr. MUDGE. Thank you very much.

Is that satisfactory to everyone? Please, Mr. Fine.

Mr. FINE. I want to commend Walter for what I think is a very ingenious idea. When Lee Iacocca, who maintained he was going to

keep jobs in this country just as long as it was economically possible to save Chrysler, decides to go overseas with American jobs, I mean, we have reached the last straw. I think this may be one of the few things that can stem that tide.

Mr. MUDGE. It's a brilliant idea.

Mr. FINE. It is.

Mr. MUDGE. Thank you very much. If there is no further comment, would you kindly read the resolution?

Mr. FLOSS. "The National Advisory Council to the United States Senate Committee on Small Business urges the Members of this Committee to advocate a verson of the investment tax credit that would allow only the purchase of equipment manufactured within the United States may be eligible for such credit."

Mr. MUDGE. Any comment on the resolution as read?

[No response.]

Mr. MUDGE. If not, we would ask for your vote. All those in favor, please indicate by saying "aye."

[A chorus of ayes.]

Mr. MUDGE. Opposed?

[No response.]

Mr. MUDGE. It is passed.

[Proposed resolution follows:]

RESOLUTION OF NATIONAL ADVISORY COUNCIL ON INVESTMENT TAX CREDIT REFORM

Whereas, the manufacturing community in our nation is currently faced with increasing foreign competition;

Whereas, those foreign competitive businesses are often aided by direct and indirect subsidies afforded them by their home governments;

Whereas, those foreign competitors are further assisted by the artificially high value of the United States dollar vis-a-vis the value of their currencies;

Whereas, our system of government and basic integrity preclude the United States from violating the General Agreement on Tariffs and Trade (GATT);

Whereas, domestic manufacturers have applied for the investment tax credit for the purchase of foreign manufactured machinery, further enhancing the benefit of the purchase of such machinery from foreign suppliers, rather than domestic firms;

Whereas, the investment tax credit was originally designed to act as an incentive for manufacturing in the United States; Therefore, be it

Resolved, That the National Advisory Council to the United States Senate Committee on Small Business urges the Members of this Committee to advocate a version of the investment tax credit that would allow only the purchase of equipment manufactured within the United States may be eligible for such credit.

Mr. MUDGE. The eighth is the last but in fact it is the first. It is the issue that has affected every one of us in the room and all 14 million across the country, as well as the entire American population. We hope that we'll have comments from each of you on this matter. We'll turn the discussion over to Bruce Hopewell.

Mr. HOPEWELL. Thank you, Mr. Chairman.

As you stated, the No. 1 concern now of not only this committee of the Congress and of small business in this country is the current budget deficit, which has escalated during the past 4 years to about $2 trillion. We feel that we want to send a strong message to Congress, for the reason that the escalating Federal budget has put the Nation's small businesses in a very crisis situation due to the increased cost of interest, the interest payment and the interest debt.

We feel that it is very necessary that Congress enact some measures at this point toward a balanced budget and one which will,

right across the board, have a tax increase that will be revenue-raising, and to cut programs such as entitlements programs and selected domestic spending programs. We feel it is very important to have this measure at this time, for the reasons that have been enumerated by many speakers last evening and today. To that event we have a resolution which we will present after discussion.

Mr. MUDGE. May we have some comments from other members of the Council, please? Mr. Mohs.

Mr. MOHS. Well, some of the issues that we have discussed have been somewhat parochial. For instance, prompt pay means more to some people here than others; insurance availability, et cetera. But the two threads that I have picked up that have run through our discussions since last night are, first—well, second in importance was insecurity about tax reform and where it's going, the hunger for predictability, the hunger for the ability to be able to plan, and the special need of small business in that regard, particularly because start-out businesses are often thinly capitalized and they really can't take vast swings in tax policy once they have set a course because their availability of capital is usually so limited.

But far eclipsing that is our true concern with the deficit. Part of that is instinctive. Part of that is because in our businesses, our enterprises, paying your bills in time and having a little extra cushion, we know is good business. We talked here this morning about selling off naval bases and the gold supply at Fort Knox with horror, in order so we can stand on our own two feet as a government and as a people. Nobody here wants to have a tax increase. I mean, the fact that there is a tax increase in the resolution you are going to hear in just a moment, discussed as a remedy for this, is a bitter pill, but it shows you how desperate we are to have this message heard.

I mean, obviously we are talking about wanting every single Government expenditure scrutinized. We are talking about nothing being sacred, and considering tax increases as a solution. Hopefully the solution will come from a lot of different places and won't raise too much havoc, but we are sincere. If there is any message that comes out of this meeting or any reason that we came here, it is to tell the Senators and the Government that we really mean it. A year ago when we met here it was the cornerstone of our message. Needless to say, not a great deal of progress has been made on the subject, but we want to just shout it even louder. This is the biggest issue for small business. It far eclipses anything else. Something has to be done about it, and we are very fearful of what will happen to us and the Nation in general if something is not done.

Mr. MUDGE. Thank for for your eloquent statement.

Herb Bowden.

Mr. BOWDEN. May I just add one point, that this very issue is one of those that has an emotional overtone, and that it runs as a thread through ever business and every person, at least in our part of the country. You hear so much about the age problems, and still it runs through the age problems because of interest rates. Small business, large business, Government itself is fearful of this. Manufacturing, of course it is a problem, and of course it gets down deeper and all of us are concerned about our families and our

grandchildren. We just think it's time we have to pay our bills. That's all I have to say.

Mr. MUDGE. Odus Hennessee.

Mr. HENNESSEE. You know, I have been to Washington, DC, three times, and until yesterday I had not had the chance to visit the Washington Monument and the Jefferson and Lincoln Memorials, and I have had a chance to see Mount Rushmore. I stand in awe when I look at those gentlemen because I realize their intentions, and it brings to mind, I believe it is the east wall—and I must admit I'm confused about the direction to a certain degree—but I believe it's on the east wall of the Lincoln Memorial where he says, "Fourscore and seven years ago * * *," obviously the Gettysburg Address. I don't know about all of you, but I think if we don't do something and do something quickly to get rid of the deficit, this Nation might not have any more "fourscore and seven years."

Mr. MUDGE. Thank you very much.

Mr. Fine, did you raise your hand?

Mr. FINE. Yes. I would like to throw open what Senator Hollings said at lunch, that the Social Security Program is a trust and not part of the general budget, and if it is a trust in which people have placed their money, should we X out Social Security? I had not thought of that argument when we talked earlier, and I would like to hear from the Senators, particularly, if Social Security is a special trust that should be separately considered from the general overall budget of the Government

Mr. Chairman.

Mr. MUDGE. Senator Sasser.

Mr. SASSER. Well, first let me say to the chairman, Mr. Mudge, and our chairman, Senator Weicker, that I am delighted to be here today to participate in this Small Business Advisory Council Session. I have had the opportunity to examine a number of the resolutions that have been passed today and I think they are very meaningful. I commend this group for your efforts and for your wisdom in passing these resolutions. I have a special interest in one or two of the issues covered by these resolutions.

I am pleased to see that the resolution dealing with the question of the budget deficit even has the courage and the foresight to suggest that, in addition to decreasing Federal spending, we might, at some juncture even have to examine the alternative of enhancing revenues or increasing taxes. I think that's a courageous step for this group to make, and one that I think is very meaningful.

Now, let me address the question of whether or not the Social Security fund is a trust fund. Other Senators may differ, but I think it is. We need to look, No. 1, at how the Social Security fund is raised. Social Security taxes are a payroll tax, as opposed to the progressive income tax. As a payroll tax, it is not levied as fairly and as equitably the progressive income tax is levied at least theoretically. These payroll taxes are levied against employees to be used for a specific purpose to support and sustain the Social Security fund and the old age and survivors' trust fund specifically. These moneys support and sustain the real purchasing power of that fund after the worker retires.

The taxes are also collected from the employer for the same reason. They are earmarked specifically for Social Security, the

old-age and survivors' trust fund. In that sense, I agree with Senator Hollings. I think it is a trust fund. The taxes are collected for a specific purpose. It is a tax that is collected not in the fairest and most equitable way. It is collected by way of what essentially is a payroll tax on both employees and employers. Having said that, I think these Social Security funds that are collected ought to be earmarked specifically for the Social Security trust fund and not used for other purposes.

Now we are in a situation where we are developing a surplus in Social Security. That may have been discussed when Senator Hollings spoke, I don't know, but liberal estimates are that by 1990 we will have a surplus of $190 billion in the Social Security trust fund. More conservative estimates are that by 1990, barring serious economic recession, that we will have a surplus somewhere in the neighborhood of $100 billion. Any way you slice it, we are developing a surplus in these funds that are collected by way of a payroll tax.

If we determine that we want to cut Social Security payments to recipients, then I think we also ought to examine the possibility of cutting the payroll tax or cutting Social Security taxes. After doing so, we could move over on the other side, then, and collect additional funds, by way of the progressive income tax or otherwise, to lay against the large budget deficits.

Mr. MUDGE. Thank you, Senator Sasser.

Senator WEICKER. I would respond. I have already indicated to you in my opening remarks the fact that in any budget process everything has to be considered. Listen, we've got airport trust funds, we've got highway trust funds. We have all sorts of trust funds. I mean, just the fact that it is a trust fund doesn't mean that all of a sudden it is removed from the affairs of this Government. I want to make that point first, that if we are to have sound fiscal procedures in this Nation—and I don't disagree, I might add, with any of the comments Jim made—everything must come into this budget review—everything—and I don't care what title you give it.

Point No. 2, if indeed the money collected in relationship to the benefits doled out by the Congress were actuarially sound, I would say, "Fine. Then all we have to do is worry about one part of the equation." The problem is, as you know, that that hasn't been the case, which is the reason why the Social Security system got into difficulty. Congress would hand out more and more and more benefits without worrying about whether the money coming in was sufficient to take care of those benefits.

I agree with what Jim says, but I also want to raise a new point. If you will recall, in my comments I said that I thought that all of the entitlements—I don't get hung up just on Social Security—ought to be in this budgetary process and under review. I am not worried about Social Security. I don't think that is the problem. I think Jim has given you a set of figures that will hold and are fairly accurate as long as Congress doesn't, once that surplus starts to accumulate, start getting too generous and adding more benefits to the program. Then we'll be right back where we started from, so I have to make that assumption.

But I'll tell you the one entitlement that sits out there which must be taken care of or there is no way of balancing this budget,

and that is Medicare/Medicaid. Absolutely no way of balancing it, and nobody is paying it the attention that it deserves. Now so you all understand where I'm coming from, I'm not suggesting its elimination. What I am suggesting to you is that, No. 1, as any monopoly—this one run by Government—without competition, it's a very costly operation, and it's not a cost-efficient operation.

Point No. 2, there are 35 million Americans who aren't even covered by this great system or by any form of insurance. This system leaks billions of dollars and it doesn't even provide the services to the people that it is supposed to cover. I have long said that we should have a national system sponsored through the private sector, and I know it is not before the Congress now—the last time it was, was about 3 years ago when Senator Kennedy, Senator Javits, myself, and others, addressed this issue. Never mind this Government monopoly. Why shouldn't the people of this Nation have exactly what all of us as Federal employees have—the opportunity to choose from a private insurer, HMO, Blue Cross, whatever? Let them compete. Let them compete, as they do for the Federal employees, both in terms of the services they offer and in terms of the price.

I think that is probably one day going to be the final answer to this monolothic system that we have got now which, as I said, leaves 35 million uncovered and is enormously expensive, leaking billions of dollars and not giving services to those that are supposed to be covered. That's when I say that the entitlements ought to be looked at. That's what I mean by looking at them. I believe health insurance is something that belongs to all of us.

Nobody is talking about socialized medicine. I'm talking about health insurance. I'm talking about a plan through the private sector. When I say that, I am also addressing myself to the budget because the losses here are really enormous. I would say that of all the entitlements—which wasn't the case 5 or 6 years ago when Social Security was a problem—but at this juncture, this entitlement has the biggest impact on the budget.

I have tried to give you a broad answer on ways to solve the deficit problem, and I think everything should come under the Government for review. It's all dollars, and I think everything in any budget, whether it's your business or a home or the U.S. Government, it's all out there on the table and it ought to be examined.

I want to again express my apologies. When I went to the Senate floor, I told them I was going to come right off the floor and come back here to be with you for a few more minutes. Now, I have got to go do my debate. The Senate is holding up a vote so I can speak on the issue under consideration. So, in a few minutes I hope you will again excuse me. I will be joining all of you again at 5 o'clock, hopefully.

Mr. MUDGE. Well, thank you very much, sir.

Before we ask that the resolution be read, would the Council consider amending the language that is in front of us to include a review of the Medicare/Medicaid cost, services, coverage, and benefit? How do you feel about that?

Mr. FINE. I would like to propose an amendment because I think we need what you say, a review, and delete the words "including Social Security," and then where you have a period, put "and care-

ful review of health care, Medicaid, and Social Security programs." In other words, we are not advocating a substantial reduction in Social Security, which is a buz word, but advocating a careful review.

Senator WEICKER. No, I would agree with that.

Mr. FINE. Very well.

Mr. MUDGE. Is that acceptable to everyone? Bill.

Mr. NOURSE. I think it will get us around the bottleneck that the way it is worded now would cause, so I agree with Shaw.

Mr. MUDGE. Could we call for the resolution? Is it appropriate now? Have you all commented on it?

Mr. HOPEWELL. What do you want to do with respect to "including Social Security"? Isn't that the question that is before us?

Senator WEICKER. He has included that, as I understand it.

Mr. HOPEWELL. Do you want to vote on that aspect? Should we include Social Security or exclulde it?

Mr. FINE. What I said was, take out the words "including Social Security," scratch that parenthetical, because I don't think we should advocate as a "must" a substantial reduction, and then add where the period is the words, "and careful review of health care, Medicaid, and Social Security programs." In other words, let's review it before we come to a draconian conclusion.

Senator WEICKER. In other words, it would read, "In the consideration of specific actions no areas should be exempt, including tax increases, as well as substantial reductions in defense spending, entitlement programs . . ."——

Mr. FINE. Comma.

Senator WEICKER. No, no. ". . . other domestic discretionary programs," and you have to do something about——

Mr. FINE. And then add the words, "and careful review of health care, Medicaid, and Social Security programs."

Senator WEICKER. Yes, but I'm just trying to see if that makes sense.

Mr. MUDGE. Strike the "and," Tim?

Mr. MOHS. I've got a question.

Mr. MUDGE. Please, Mr. Mohs.

Mr. MOHS. I have a question: Do we want to be so soft as to say all we want is a review? I mean, we're looking for some pretty massive savings here, and why don't we make the people who want the programs continued as is or increased come forth and defend them? I guess I would feel very comfortable asking for decreases in the whole works, if anyone else feels that way.

Senator WEICKER. Well, what if you went up front? What if you said, "In the consideration of specific actions no areas should be exempt, including tax increases, entitlement programs"—put that up there—"as well as substantial reductions in defense spending, and other domestic discretionary programs." That ensures that your entitlement programs will not be exempt from the specific action you're talking about. I think you are getting into your problem by lumping Social Security with defense spending.

Mr. HOPEWELL. Yes.

Senator WEICKER. I think you get around that if you say, "In the consideration of specific actions no areas should be exempt, includ-

ing tax increases, entitlement programs, substantial reductions in defense spending, and other domestic discretionary programs."

Mr. FINE. I would move that amendment.

Mr. MUDGE. Let me call for——

Senator WEICKER. Senator Kerry is with us. Why have we got you all the way down there, John? Come on up here. I'm afraid we're going to lose you.

Senator KERRY. I'm getting used to this, Lowell.

Senator WEICKER. Senator Kerry is indeed, although one of our newest, one of our most valued Members. I might add he is also the ranking member of the Subcommittee on the Handicapped, which I chair, and he was a great addition from the State of Massachusetts.

Mr. MUDGE. We will proceed with the agenda. Would you please read the resolution as amended?

Mr. HOPEWELL. OK. "Be it resolved that, the National Advisory Council to the Senate Committee on Small Business calls upon the President and the Congress of the United States to take immediate action to address this budget crisis. In the consideration of specific actions no areas should be exempt, including tax increases, as well as substantial reductions in defense spending, entitlement programs, including Social Security, and other domestic discretionary programs."

Mr. MUDGE. Any comment on that? Mr. Lefkiades.

Mr. LEFKIADES. Where it says "tax increases," I would like some specific notice as to a minimum tax, perhaps with the language of a graduated minimum tax. I would like some specific inclusion of that minimum tax.

Mr. FINE. That's in the tax resolution.

Mr. LEFKIADES. Do we have that in the tax resolution?

Mr. FINE. It's already in the tax resolution.

Mr. LEFKIADES. OK.

Mr. MUDGE. Any further comment? Move the question, please.

Yes? Please, go ahead.

Mr. BAKER. As a point of reference—I know we have couched it carefully—but does that include or exempt Social Security from consideration?

Mr. MUDGE. No, it doesn't. Your entitlements would include Social Security. It's an entitlement.

Mr. Houston.

Mr. HOUSTON. I think as we talk about what to do with Social Security, there were some comments made this morning that people kept saying we're talking about the possibility of an $85 billion reduction in spending, and that's unprecedented. Well, a $2 trillion deficit is unprecedented also. Senator Nickles' staff right here, who is a very good scholar, did the math for me. I asked him, "What is $2 trillion," and he said, "If you reduce the budget $10 billion a year, it will take 200 years to pay that back," and that's absent any inflation, and that's with a balanced budget for the next 200 years, so I think we need to recognize the impact of that $2 trillion if we are ever going to talk about a balanced budget.

Mr. MUDGE. Thank you. Move the question? Would you read the resolution? We have read it? OK.

All those in favor of the resolution as read, please signify by saying "aye."

[A chorus of ayes.]
Mr. MUDGE. Opposed?
[No response.]
Mr. MUDGE. It is passed.
[Proposed resolution follows:]

RESOLUTION OF NATIONAL ADVISORY COUNCIL ON BUDGET DEFICIT

Whereas, the total Federal debt has doubled over the past four years to almost 2 trillion dollars, and seriously threatens the majority of the nation's small businesses, which would be particularly hard hit by higher interest rates, renewed inflation and a stagnating economy.,

Whereas, the Congressional Budget Office estimates that without any corrective action by the President or Congress to immediately reduce these deficits, and hold the line across the board on controllable spending, that a crisis is at hand for small business;

Whereas, any effective debt reduction package should include necessary tax increases, while allowing for provisions that are favorable to the short and long-term planning of both small and agri-related businesses; Therefore, be it

Resolved, That the National Advisory Council to the Senate Committee on Small Business calls upon the President and the Congress of the United States to take immediate action to address this budget crisis. In the consideration of specific actions no areas should be exempt, including tax increases, as well as substantial reductions in defense spending, entitlement programs, including social security, and other domestic discretionary programs.

Mr. MUDGE. Would you like to welcome Senator Nunn?

Senator WEICKER. Yes. I would like to welcome Senator Nunn as I depart. Senator Nunn, as you know, was the ranking member, and he made as much of a quantum leap as anybody can make around this place from the Small Business Committee to being the ranking member, maybe someday the chairman, of Armed Services. There is quite a bit of difference between the Small Business Administration budget and the budget of the Department of Defense.

[Laughter.]

Senator NUNN. We are trying to encourage the Defense Department to buy all their toilet seats from——

[Laughter.]

Senator WEICKER. Well, I'll see you all a little later.

Mr. NOURSE. Shaw, could I say something before the chairman leaves? I would like to thank him for holding the hearings on taxes. I neglected that before in my comments when you were here, but I do feel it was a very good idea to hold the hearings on tax reform across the country, and I think you got input that you would have never gotten any other way. I wholeheartedly encourage you to do the same thing expeditiously on the insurance issue.

Thank you very much.

Senator WEICKER. Thank you. I'll see you in a little bit.

Mr. MUDGE. Thank you, Mr. Chairman.

Senator Nunn, would you like to comment?

Senator NUNN. Just to welcome all of you here and thank you for what you are doing in terms of advising us. I don't know what you have talked about. I am at a bit of a disadvantage, but just a couple of random thoughts: One is, I met with Milt Stewart. Many of you know Milt Stewart, who has been very active in the small business arena. I met with him this week, and Milt tells me he is going to be doing work with the SDI program—the strategic de-

fense initiative program—to try and see that as much of that research be directed toward small business as possible. Of course, he is working in that arena for the Federal Government in general on a part-time basis, and I think that is something I want to follow with interest.

The other thing, I don't know what you'll be saying about tax reform but it seems to me the bill is probably in danger of being bogged down, maybe on the House side, and certainly I don't think anyone believes we are going to bring up a tax bill and pass it this year in the Senate. I think that does give us all some time to try to have an effect on that bill. I would like to see the bill aimed not only at rate reduction—I think that's nice if possible—but I think it's more important that it be aimed at having America be able to compete in the world of real competition in economic matters, that we aren't accustomed to but must get accustomed to, and I believe small business plays a vital role in that.

So there are going to be a number of us in the Senate, I think, on both sides of the aisle that are going to be looking at that tax bill the rest of this year and next year with that in mind. Any inputs you have would be extremely valuable. I think that getting rates down is important but it seems to me when we're getting our heads beat off around the world in trade, when we're having all sorts of deficit problems which, David, you just mentioned, that the bill has to have a much broader purpose than that. I think the competitive feature of it, in terms of what it does to savings and productivity and small business and the ability of companies to compete in the world, to me is the most important challenge we have economically now.

So that's all I have, and I will be welcoming very much the advice we get from you all.

Mr. MUDGE. Thank you very much, Senator Nunn.

Senator Kerry, if you would like to——

Senator KERRY. Well, I don't really want to add too much to what the Senator said or others have said and, having missed a great deal of the discussion, I feel a little bit inadequate to cover what is going on here. I would simply second Sam's comments. I think that unfortunately the Democratic Party has had a long-time inadequacy in its ability to be able to voice and articulate some of the concerns people have in this country for our economic health, and I think you are seeing a transition here in that now and hopefully a more healthy across-the-board attitude about the seriousness of the deficit.

Some of us who are new to the legislature here come with a built-in high level of frustration about the inability of this process to seem to really want to bring cloture to the budget process and to deal with the issues of incentive and profit at the same time as we deal with the deficit, so I think the tax reform bill that is on the table has got to be reviewed very carefully and cautiously as we also deal with the budget process here, which I welcome, incidentally. I think we need to get tougher and more hard-nosed about facing up to the terrible impact that all of us, you have all felt, that you have advised this committee on, and that you hear countless people across the country talking about, but about which nothing seems to happen in response to it.

So I am particularly anxious over the next budget cycle to watch as we get to some zero-sum choices, which I think could get very interesting as we face up to the marketplace internationally and some realities about capital formation and how we can make things grow in this country. I think it is a fascinating period and I am very anxious, within the framework of this committee and elsewhere, to be a part of that debate because I think it is so interesting and so challenging.

I share Sam's reservations about this tax bill. I think it negates fundamental incentives that work within the marketplace. I think you are going to see a lot of us be very skeptical about reforms that are not really reforms and which may have an extraordinarily significant negative impact on our ability to do business and meet some of those international concerns.

So, having said that, I won't say anything more. I wish to thank you very much.

Mr. MUDGE. Senator Kerry, the Council earlier resolved on the matter of proposed tax reform that "the National Advisory Council to the U.S. Senate Committee on Small Business does not believe that fundamental change in the Tax Code is warranted, with the exception of a strong corporate minimum tax. Should Congress decide to enact comprehensive tax reform, any such revision of the Tax Code must recognize the needs of small business as reflected in the specific small business tax provisions cited above."

Mr. MUDGE. Mr. Mohs.

Mr. MOHS. Well, we have three captive Senators here, at least, who didn't hear all of our debate. The one they really should have been to was last night for 2 hours while this group struggled with the Tax Reform Act, and I must say—and I believe I am not unique—I think it was confusing, which is illustrative of our point of view. There are so many—I know myself, I get Alexander Grant and Arthur Andersen and those different ones all sending me letters, updates, what they doing now. If you read that stuff, it is terrifying because if you extract the worst, I mean, it is immediate bankruptcy for just about everybody in terms of their tax position.

One thing that is consistent with what we have said before is the absolute need of small business for some predictability, the terrific fear that we have of retroactive provisions, the hunger we have for, if there is a change, that the transition rules understand prior commitments and our need to be able to adjust to long-term plans that we have put in place and can't get out of, and that we don't want—we have faced many risks in the marketplace, in material, labor, sales, and everything else, and Government shouldn't be the premier one.

I can say right now I have three fairly substantial projects underway. Thank heaven for the computer because we can punch them in with tax credit, without tax credit, with tax rates here, with recapture of depreciation, and what are the capital markets saying to the five or six scenarios that we are laying out to them. what people are paying attention to is, what is Congress going to do, and whether or not there is a market for what we're producing is getting to be secondary in risk. And so, besides our overwhelming desire to have the deficit reduced, tax reform here is a matter of substantial frustration. We have determined that we would

rather have things as is and change slowly and incrementally, rather than a massive overhaul. I think that's about as close to a consensus of how we feel as you could get. It probably isn't a total consensus.

Mr. MUDGE. Bill Nourse.

Mr. NOURSE. I would like to make a comment about the trade issue earlier, Shaw. I missed an opportunity to make a comment and I am particularly concerned, since this morning's meeting was off the record and our trade ambassador was here to brief us, I would like the record to show that we clearly impressed upon him in the dialog that we view the trade issue as a small business issue: The ripple effect, particularly in my State, Tennessee, with the closing of textile plants and shoe factories, and its effect on the small business communities, the towns, et cetera.

We made several points with him which I think the Senate Small Business Committee can follow up on. One, we felt that the section 301 cases needed to be expedited, and we that we feel strongly that our trading partners need to be dealt with on a bilateral basis in an expeditious manner, and that the countryside—particularly the town in Tennessee where I come from—have a clear image that our trade ambassador is dragging his feet. I don't think that is an image they want, and I think that the record ought to reflect that he left here, I think not just from my comments but from any other comments, that while that's an issue that seems to Washington not to affect small business, we clearly have very strong views on it and we expect him to follow his own comments, and one of those in particular that I referred him to, his own testimony, where he is beginning to use the word "fair" with "free." My suggestion to him was to stop using the word "free" and approach the issue from the "fair" perspective.

I think the record ought to show that so this committee can follow that up. I think that's an issue that we vigorously need to be involved in. It affects my State as well as many others. Thank you, Shaw.

Mr. MUDGE. Thank you.

Mrs. BALL. Shaw, if I may, could I comment on that?

Mr. MUDGE. Yes, Mrs. Ball.

Mrs. BALL. Regarding trade, I come from the manufacturing sector. I would like to add—or rather—yes, I would like to add that in order to have a healthy American industry, we should also ask our Government to help restore the American smokestack area. In this process we have to think of training or retraining, and I think all should be done in order to somehow get the trade deficit down, also to help the American industry in restoring itself and certainly making an impact on the rest of the world. Perhaps in this sense I would like to add, wherever it is in the national interest of the country we should definitely explore a new geographical area or areas where we can sell our product or where we can be instrumental in getting the American ware back out into the world.

Thank you.

Mr. MUDGE. Thank you, Mrs. Ball.

Before I move for adjournment, I would point out that at 5 o'clock we will have the reception in S. 207 of the Capitol. There

will be a photographer there to have your photograph taken with your Senator.

We want to thank Bob Dotchin, the administrative director of the Senate Committee on Small Business. We want to thank the majority staff, we want to thank the minority staff, for the great effort they went to in preparing for this council meeting. It's quite a feat of logistics to get everyone informed, and particularly with the fact of the Senators having so many obligations, so many burdens upon them. We appreciate very much the great help the staff and Bob Dotchin have given to us.

Mr. NOURSE. Shaw.

Mr. MUDGE. Yes, Bill.

Mr. NOURSE. One last comment: I would like to express the view of the five of us that have been on this Advisory Council since the beginning. We are very pleased at the evolvement of this Council to what it is today. We think that this is probably the best body we have had so far. The level of participation, the number of participants is the highest it has ever been. I think the work product is the best it has been, and we are very pleased about that.

I also want to reaffirm the suggestion that I put forward last night. We very much want to extend our meetings to 2 days next year. We would like to have a full day of preparatory for the day with the Senators and the briefings.

Shaw, thank you.

Mr. MUDGE. Thank you very much, Bill.

The chairman recommends that the committee meeting be held in the morning. OK?

Would somebody move for adjournment, please?

Mr. HOUSTON. So moved.

Mr. MOHS. Second.

Mr. MUDGE. All those in favor, please rise.

[Whereupon, at 3:55 p.m., the committee adjourned, to reconvene at the call of the Chair.]

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